

**Standard Summary Project Fiche –
IPA centralised National programme to Montenegro**

Improving the Business Environment for Small and Rural Enterprises

1. Basic information

1.1 CRIS Number: 2008/020-316

1.2 Title: Improving the Business Environment for Small and Rural Enterprises

1.3 ELARG Statistical code: 02.20

1.4 Location: Podgorica, Montenegro

Implementing arrangements:

1.5 Contracting Authority

Delegation of the European Commission

1.6 Implementing Agency

Delegation of the European Commission

1.7 Beneficiary

Ministry of Economic Development and Directorate for SME Development (SMEDA)

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1.8 Overall cost (VAT excluded): €1 360 000

1.9 EU contribution: €1 200 000

1.10 Final date for contracting:

Two years after the signature of the Financing Agreement.

1.11 Final date for execution of contracts:

Two years after the final date for contracting.

1.12 Final date for disbursements:

One year after the final date for the execution of contracts.

2. Overall Objective and Project Purpose

2.1 Overall Objective:

The overall objective of the project is to strengthen the development of the private sector in the rural areas of Montenegro.

2.2 Project purpose:

Fostering development of entrepreneurship with special support to rural enterprises through improve business environment and supports, which will contribute to a more balanced regional development, increased investment, employment generation and poverty reduction.

2.3 Link with the AP/ NPAA/EP/SAA

The **EP** indicates that the priorities in industry and SMEs should be to: continue implementing the European Charter for Small Enterprises; adopt a law on harmonisation and acceleration of licensing and systems for issuing permits; implement legislation in close cooperation with local government authorities; and, adopt and implement an action plan for the reduction of business barriers; and accelerate the setting up and implementation of a national guarantee fund for SMEs

The **SAA** highlights that the EU and Montenegro should promote wider co-operation with the aim to speed up the inflow of know-how and access to new technologies. Co-operation will also aim at strengthening the rule of law in the business area through a stable and non-discriminatory trade-related legal framework.

2.4 Link with MIPD

The **MIPD** states that competitiveness in the private sector be achieved through an improved framework for private enterprises, including reduction in business barriers; improved business support services and legal and institutional framework for public private partnerships; progress in terms of technological development and investment facilitation; improved SME access to finance, particularly for enterprises in rural and less developed regions.

2.5 Link with National Development Plan (where applicable)

N/A

2.6 Link with national/ sectoral investment plans(where applicable)

The programme addresses key priorities of the Montenegrin Government Private Sector Development Strategy 2007 – 2010 aimed at fostering development of entrepreneurship and small and rural enterprises.

3. Description of project

3.1 Background and justification

3.1.1 Business environment strengthening

Montenegro has achieved macro-economic stability following prudent monetary and fiscal management, privatisation of state assets and other structural reforms. This has improved the environment for doing business in the country, attracted foreign investments and enabled entrepreneurial initiative to re-invigorate the economy.

There is no doubt that the business environment in Montenegro has been significantly improved for the last several years. A set of new laws has been adopted, and these laws are to a high extent aligned with the EU standards and provide a sound framework for establishment of a new economic system in Montenegro, while important institutional reforms in key sectors have been introduced, such as those in: fiscal system, financial sectors, payment operations, privatization, restructuring of companies, etc. However, entrepreneurs still face difficulties in business environment, which is mainly contributed by a complicated regulatory framework and extensive and expensive administrative procedures. A lot has been done to adopt growth-supporting law regulations, but additional efforts are necessary in order to put it in function and to enable that Montenegro meets the standards of competitive market economy and requirements of the EU integration process, and to continue to attract various necessary investments. These factors contribute much to the difficulty, risk and increase of expenses of running a business in Montenegro.

A number of recent World Bank Doing Business Reports have confirmed the problems, signalling difficulties affecting the transparency and consistency of the administrative and regulatory framework at the national and municipal levels. This highlights the overlapping competencies, lack of transparency, duplication of efforts, corruption, and other problems in business licensing, contract enforcement, labour regulation, and access to land/property registration. For example the World Bank 2008 indicators show that it takes 210 days to register and obtain necessary licenses to establish a new warehouse in Montenegro.

As a part of the process of improvement of the environment for entrepreneurship, private initiative and development of small and medium sized enterprises (SME), Government of Montenegro adopted the Programme for elimination of barriers to development of entrepreneurship, prepared by the Directorate for Development of Small and Medium Sized Enterprises. This Programme contains the analysis of barriers to business development in Montenegro along with the suggestions so as to how to eliminate them, and its aim is to attempt to provide assistance to public administration bodies in the selection of priority recommendations in order to resolve the issue. It contains the analysis of business environment, ownership rights, tax policy, foreign trade, credit policy, labour market, disloyal competition and grey economy, and it provides a framework analysis of the situation and existing factors which, to a certain extent, may slow down the process of development of enterprise sector in the Republic.

The methodology of this project is focused at analyzing positive and legal regulations in the areas affecting the setting-up and running of SMEs and it communicates to three categories of entities: owners or managers of business organizations, state employees and professional mediators such as lawyers, bankers and accountants. As the most pronounced, the following barriers for growth and development of SMEs in Montenegro have been identified:

- Complicated and long-standing administrative procedures. Licensing (obtaining of permissions for work and construction permits) is complicated and significantly permits arbitrary in decision making process. Consents and decisions are issued by numerous bodies and institutions (at the both local and state level). Besides, costs of obtaining permissions are significantly high, although due to the previously mentioned problems cannot be precisely determined and vary depending on the type of activity and the required documentation for each of them. Removal of these obstacles is often linked to the problem of the change of existing way of thinking. At the same time, many problems arise as a result of the lack of coordination among organizational units within state administration, its poor equipment with IT, and insufficiently improved dialogue between public and private sector.
- Process of purchase of land is of long duration and is burdened with bureaucratic procedures. The lack of the available urban land on the market is the consequence not only of the legal obstacles, but of the non existence of the quality database of the built parcels on which right on property or lease can be freely acquired. The lack of accurate, correct and updated records in Cadastre and Registry of the property right is making difficult clear determination of the bearer of the property right in the cases of the existence of doubt.
- The process of transfer of real estate is slow and long standing. Beside the fact that many required official documents are old or do not exist at all, the lack of the adequately qualified staff, modern systems and means of work in the authorized bodies leads to the creation of system which is slow and poorly oriented towards provision of services.
- Labour market is still insufficiently flexible to the modern market requirements and requires necessary reform in the future

Alongside with the adoption of the Programme, the Government has established an institutional framework for its implementation by choosing a concept according to which the strategic management of the Program for eliminating the barriers to entrepreneurship development will be entrusted to the Council for Elimination of Barriers to Business, with the Prime minister as a leader.

The Council for Elimination of Barriers to Business will manage, control and ensure the implementation of the Program and annual Action plans for eliminating barriers to business.

On the operational level, team of experts has been formed. The operational team will provide the expert diagnosis of the situation and propose the measures to eliminate barriers to business.

The project will address these issues by facilitating the approximation of Montenegro's business regulations and procedures with those of the EU; establishing registers of improved business regulations and procedures; and making them accessible to the general public. It will also help build the capacity of officials to implement and sustain the reforms, including their capacity for policy dialogue with the private sector.

3.1.2 Improving access to finance - establishment of a credit guarantee fund

Access to credit has dramatically improved over the last few years. However, many SMEs, particularly those from rural and less developed regions, still face significant difficulties in accessing loans from commercial banks. The banks often require them to provide real estate as collateral but the banks do not accept agricultural land as valid collateral. This represents an insurmountable problem for many enterprises, especially in rural areas, in starting or expanding their businesses – in short a classic example of “market failure” that requires public intervention.

Initially this intervention involved subsidised loans to SMEs. For instance, in 2006, the Development Fund has committed €14 million, SME Directorate about €3.5 million, while additional resources were also deployed by other public entities (Ministry of Agriculture, Employment office, etc). In total, public funds devoted to SME loan finance are equivalent to 20-25% of the total 2006 state capital expenditure budget. This was justified when the Montenegrin banking sector was in its infancy with limited resources and very high interest rates. However, with improved liquidity, the banks are now much better able to service the SME needs for finance – providing the appropriate enabling environment is in place.

At the same time, the Government is embarking on an ambitious long term infrastructure development programme, which the banking sector cannot support due to the short term nature of its deposits. Therefore, the Government is increasingly pressed to shift its scarce public resources away from supporting SMEs into long term public infrastructure programmes.

As clearly shown by the experience of many European countries, credit guarantees are a more efficient SME support instrument than loans¹. Indeed, with a capital of € 1 million any additional loan can only be extended with loans of up to 1 million. However, the same amount, when used to capitalize a CGF, can support loans worth several millions, typically between €6 and €12 million.

¹ The CGFs are active in practically all EU Member States. According to a recent report from the European Commission (EC, Guarantees and Mutual Guarantees, January 2006), in 2005 European CGF had a total capital of about €3.8 billion. This allowed them to extended guarantees for more than €37 billion, i.e. ten times more than the capital and to assist no less than 2,000,000 SMEs..

A credit guarantee fund (CGF) is a particularly suitable instrument to facilitate SME access to commercial bank lending in countries where banks impose high collaterals and in cases where SMEs lack sufficient track record or credit history. The credit guarantees issued by CGF replace (or at least reduce the need for) other forms of guarantees, thereby making it possible for a larger number of SME to access bank lending for the first time or to obtain larger loans.

In addition, CGF is a flexible instrument that can also be used to achieve a variety of policy goals, such as fostering development in disadvantaged regions.

EU counterpart funds of up to €1.2 million generated by an earlier EU programme in the Montenegrin agriculture and rural sector could be contributed to the first Montenegrin CGF. The Ministry of Agriculture has already expressed strong interest in using these funds to establish a ‘soft window’ in a CGF to support SMEs. A particular target would be supporting SMEs from the agriculture and rural sector in the less developed regions of Montenegro (who have greatest difficulty in accessing loans from commercial banks).

According to the CGF Business Plan and Financial Model developed by EU experts after several rounds of consultations with all the stakeholders, agreement has been reached to establish the CGF in 2008, as follows:

Public Private Partnership: In the initial phase, the state is expected to play a predominant role, by contributing the bulk of the CGF capital, but private sector organisations and commercial banks will also be required to contribute, however modestly. The proposed model will ensure that in the long term the CGF becomes majority owned by private sector companies and the state gradually recoups its initial investment. The Directorate of SME Development has taken the lead among public institutions, and has already committed to devote funds in the region €2 million for the initial capitalisation of the CGF. The Ministry of Agriculture, has also agreed to utilise €1.2 million counterpart funds remaining from an EU funded project. As regards the private sector, a total of 10 Montenegrin banks, individually and through their Banking Association, have declared their willingness in principle to contribute in the region of €1 million.

Supervision: in line with international best practice and regulations (Basle II and European Directives), the CGF will be subject to supervision from the Central Bank of Montenegro (CBM). In accordance with the new banking law, the CBM issued a new regulation stipulating the conditions for the establishment and operations of the CGF, covering aspects related to minimum capitalisation, regulatory capital requirements, capital adequacy ratios, risk management and any other aspect that is deemed necessary to ensure financial stability;

Risk Sharing: guarantees issued by the CGF will not exceed 50 – 70% of the value of loans extended by commercial banks. This will help to minimise the risk of losses and encourage banks to exert a thorough screening of credit applications. More favourable conditions could be extended to SME located in less developed regions or to special categories of SME.

Self Sustainability: the CGF will be structured as a financially self sustainable organisation. This means that revenue deriving from the guarantee fees paid by SME and the financial income derived from the management of liquid resources will have to cover operational costs and losses associated with the payment of guarantees on defaulted loans.

Consequently, besides being ‘financial engineering’ that addresses the needs of SMEs that otherwise might not be able to gain access to credit, the CGF will be a structural economic reform, contributing to the improved governance, the rationalization of public spending, and helping Montenegro reach European standards and best practice in this area.

3.1.3 Development of business incubation services

The Government is supporting the establishment of business incubators, as a proven instrument for support to new businesses in their early stages of development. This involves helping them to establish and accelerate their growth and success, and then “graduating” them when they reach a certain level of maturity.

Business incubators usually consist of certain number of small business units. Typically they are:

- Located in one place, usually one building
- Offered entrepreneurs on flexible, low cost terms, with easy rental agreements
- Provided with integral on-site business advice, training and consultancy support services, at low or no cost.

They thus provide space and various small business services creating a sheltered environment for start up or small business in their first year of operation. An incubator lowers the cost and risk of starting a new company and gives potential entrepreneurs and their business with the best chance of survival. Incubators can be used by public authorities to encourage the formation and survival of new companies.

Fundamental to the incubator concept and its success in the on-site provision of skilled, is the professional one-to-one small business advice. Without this, premises are just managed workspaces-which are similar to incubators, but tend to offer only property services to established small business to help them with space to grow –it being expected that growing businesses will already have access to general advice or have developed “survival skills”.

The most successful incubators are managed workspaces encouraging local employment growth and not subsidizing failing or ineffective business.

Based on an analysis by EU experts, the obstacles that the start-ups face in Montenegro include:

- Burdensome business regulations
- An absence of business support services
- Lack of advice, mentoring and best practice guidance
- Limited access to appropriate financial resources
- Limited and/or costly access to telecom services, particularly the Internet

Setting up an incubator from scratch is a long and complex process, as it needs to align a wide range of issues (expectations, understanding of the incubation concept, legal, finance, etc.) with a diverse group of stakeholders. There are a lot of misconceptions of incubation, particularly around purpose and self-sustainability. To be successful, it needs core funding, a clear concept and purpose, a strong and committed project team and an entrepreneurial manager.

However, these initial difficulties in Montenegro have already been surmounted with the support of EU experts, and a first ICT business incubator has already been established in Podgorica in early 2008, in the form of public private partnership involving the Government, Municipality of Podgorica and private sector companies.

Following a competitive procedure, a group of promising enterprises have been identified. An on-going EU funded Turn Around Management project implemented in cooperation with EBRD will provide initial assistance and guidance to this Incubator throughout 2008.

However, additional support is needed to expand this initiative to cover the less developed northern rural region of the country.

3.2 Assessment of project impact, catalytic effect, sustainability

(i) The **main impact** of elimination of business barriers will be the reduced cost and risk of doing business in Montenegro, particularly for small and rural enterprises, which will enhance country's competitiveness, **catalyse** private investment and ensure **sustainable** growth

(ii) A new professionally managed credit guarantee institution will be established, and its **key impact and catalytic effect** will be the delivery of a more efficient, effective, transparent and **sustainable** support to SMEs in rural and less developed regions that otherwise would not have access to loan finance due to 'market failure'

(iii) *Business incubator in northern Montenegro* will be established and strengthened with EU support and will be able to deliver business support services needed by promising new enterprises in certain area on a **sustainable basis**, which will **catalyse** entrepreneurship and innovation in Montenegro

3.3 Results and measurable indicators:

1) The first result is the reducing of business barriers at national and municipal levels.

Measurable indicators include for 5 areas – 1) starting a business, 2) dealing with licences, 3) registering property, 4) paying taxes and 5) closing a business - reduced time, cost and procedures, as follows:

1) Starting a Business	<i>Procedures (number) :</i>	<i>from 15 to 6</i>
	<i>Duration (days) :</i>	<i>from 24 to 15</i>
2) Dealing with Licenses	<i>Procedures (number):</i>	<i>from 19 to 10</i>
	<i>Duration (days):</i>	<i>from 185 to 100</i>
3) Registering Property	<i>Procedures (number) :</i>	<i>from 8 to 5</i>
	<i>Duration (days):</i>	<i>from 86 to 60</i>
	<i>Cost (% of property value) :</i>	<i>from 2.4 to 2.0</i>
4) Paying Taxes	<i>Payments (number) :</i>	<i>from 88 to 60</i>
	<i>Time (hours) :</i>	<i>from 372 to 250</i>
	<i>Total tax rate (% profit) :</i>	<i>from 31.6 to 27</i>
		<i>at the national level</i>
5) Closing a Business	<i>Time (years) :</i>	<i>from 2.0 to 1.5</i>
	<i>Cost (% of estate) :</i>	<i>from 8 to 6</i>
	<i>Recovery rate (cents on the EUR) :</i>	<i>from 42.8 to 60</i>

2) The second expected result is an improved access to finance for SMEs, particularly for rural enterprises in less developed regions of Montenegro

The indicators are based on the activities of Credit Guarantee Fund (CGF) to be established. The CGF should issue by the end of the project duration the following:

- *Number of Guarantees – from 0 to 300*
- *Value of Guarantees – from 0 to up to 20mil. €*
- *Value of Loans Assisted – from 0 to up to 35 mil. €*

- *CGF could assist around 100 business entities*

The third result is the development of business support services/business incubator in northern region

Measurable indicators include the:

- Support to 10 entrepreneurs or SMEs provided in the first 3 years of business incubator operation
- Support in business services at least to 20 entrepreneurs or SMEs in Northern region on the 3 years period

3.4 Activities:

Activities related to result 1: Business environment

Business environment activities will involve building the capacity of the government and municipalities for dialogue with the private sector (incl employers' associations) aimed at improved efficiency in management of economic reforms and elimination of business barriers in a number of areas, including but not limited to:

- 1.1. Drafting new laws regulations and/or amending existing laws and regulations especially for 5 areas -starting a business, dealing with licences, registering property paying taxes and closing a business
- 1.2. Preparation and implementation of Model for consolidated collection of taxes and contributions
- 1.3. Preparation and implementation of Model for on line collection of taxes and contributions
- 1.4. Preparation and implementation of Model for and on line registration of companies
- 1.5. establishing and putting into operation of an integrated service delivery portals in at least 6 municipalities

Activities related to result 2: Improving access to finance

Activities aimed at improving access to finance for SMEs will involve continued technical assistance and capacity building needed by the CGF in the first two years of its operations for:

- 2.1 Development of CGF guarantee policy
- 2.2 Development of CGF operational and administrative procedures, to be consolidated in a detailed Operations Manual
- 2.3 Design and implementation of a computerized management information system (MIS)
- 2.4 Design and implementation of a comprehensive marketing plan
- 2.5 Assistance in operational matters
- 2.6 Assistance in management of CGF liquid resources
- 2.7 Development of international linkages, including operational contacts with CGF active in other European countries, international financial institutions and other development finance institutions
- 2.8 Development of new products/guarantee schemes
- 2.9 Training courses for CGF staff
- 2.10 Study tours to selected EU Credit Guarantee Funds
- 2.11 Refurbishment of premises and supply of IT and software

Activities related to result 3. Business incubator

Activities in this sector comprise:

- 3.1. Development of incubator policy
- 3.2. Mobilization of Resources for incubator (premises, staff , equipment, etc
- 3.3. Training courses for management and staff
- 3.4. Provide administrative and other supports for tenants
- 3.5. Development of national / international linkages with Business incubators

An additional activity will be the technical support for the estimation of GDP share produced by small and medium enterprises, which will support the calculation of the indicator of the overall objective. IPA 2007 project on statistics supporting the harmonisation of economic and business statistics with EU standards would also assist in relevant data collection and the development of the methodology for the calculation of necessary indicators.

3.5 Conditionality and sequencing:

The key conditions to be met are:

- The government and municipalities should provide maximum compliance with all the measures and deadlines determined to eliminate the barriers to business during the process
- The government institutions shall commit the funding necessary to support the CGF capitalisation and the operational budget
- The government and municipality shall commit the funding necessary to support the establishment and operations of business incubators

The beneficiary institutions should in particular:

- 1) Appoint the counterpart personnel
- 2) Appoint the relevant staff to participate in capacity building and training activity in accordance with the agreed training strategy
- 3) Allocate working space and facilities

In the event that these conditions are not met, suspension or cancellation of project will be considered.

3.6 Linked activities

The EU has allocated a total of € 10 million for various programmes in support of SME development in Montenegro during the last 6 years. Besides direct business advisory support to SMEs, these programmes helped establish business support institutions, including SMEDA and its network of regional centres.

An EU funded €87 000 Turn Around Management project implemented by the EBRD helped establish the first ICT business incubator in Montenegro in early 2008.

Past EU OBNOVA assistance programme has also helped improve the access to finance for SMEs by provision of a €3 million contribution to the KfW managed credit lines through the banking sector. Furthermore, the on-going 2005 CARDS technical assistance ‘Advisory Support for Transformation of the Development Fund’ worth €1 million is, among else, preparing the ground for establishment of the first CGF in Montenegro. It already prepared a detailed business plan and proposal for a CGF, which was endorsed by all relevant stakeholders, including the government, commercial banks and business community. In addition, it helped the Central Bank prepare the corresponding regulation on CGFs. During the remainder of 2008, EU experts will provide the necessary guidance for completing the legal documentation and incorporation of the CGF (charter and bylaws), the job descriptions for the future CGF staff, and will support the stakeholders to establish the CGF by October 2008.

The above activity builds on an earlier Austrian Government funded pre-feasibility study prepared at the request of the Government in 2004 – 2005², which confirmed the need for CGF establishment in Montenegro.

The German and US governments have been the major providers of technical assistance for SME and entrepreneurship development in Montenegro, either directly or through the government institutions, business associations and NGOs. However, it is important to note that many of these programmes are phasing down and will not be continued in the coming years. Nevertheless, GTZ is implementing since January 2007 and for a 7 years duration a €6 million programme covering economic development and employment promotion. The overall objective is to develop effective support structure and instruments enhancing prospects for development and growth in selected areas of the private sector. The project supports the Ministry for Economic Development, the SMEDA, business associations as well as other private business development providers to set up business development services on national and local level to match enterprise needs.

An active on-going project is the World Bank FIAS sub-national Doing Business study co-funded with USAID support (scheduled for completion in June 2008) covers 3 localities in Montenegro – Podgorica, Bijelo Polje, and Niksic – and provides baseline measures of key indicators of the business environment. These locations have been selected in order to capture synergies and build on the work of the USAID Economic Development Business Friendly Municipalities project. The work proposed under this project will, among others, target these locations to help deepen and institutionalize business environment reforms and link the work of the municipalities with national level reforms.

Also worth mentioning is another business incubator project, targeting entrepreneurs in the tourism sector and developed with Dutch Government support in the coastal city of Bar.

3.7 Lessons learned

The CGFs have become an essential element of the EU financial sector. In recent years, the European Commission has supported the establishment of CGF in Central and Eastern European countries that have become or are expected to become EU members, through a variety of initiatives. In addition, the EC has allocated considerable funds to established CGFs, in particular through the European Investment Bank.

According to the analyses of the European Association of Guarantee Funds, the experience of CGF established in the Central and Eastern European countries indicates that the various

² See ADA, *Evaluation of the Possibilities for Setting Up a SME Credit Guarantee Fund in Montenegro*, March 2005.

forms EU support for CGF have had a significant positive development impact on SMEs in these countries.

Montenegro is the only South Eastern European country which does not have a CGF. It lacks the necessary skills required for its establishment and would thus stand to benefit from international technical assistance to create and effectively operate such a new institution.

4. Indicative Budget (amounts in EUR)

			TOTAL EXP.RE	SOURCES OF FUNDING								
				IPA COMMUNITY CONTRIBUTION		NATIONAL CONTRIBUTION					PRIVATE CONTRIBUTION	
ACTIVITIES	IB	INV	EUR (a)=(b)+(c)+(d)	EUR (b)	%	Total EUR (c)=(x)+(y)+(z)	%	Central EUR (x)	Regional/ Local EUR (y)	IFIs EUR (z)	EUR (d)	%
contract 1	X		1,200,000	1,200,000	100							–
contract 2		X	160,000			160,000	100	160,000				–
TOTAL IB			1,200,000	1,200,000	100							
TOTAL INV			160,000			160,000	100	160,000				
TOTAL PROJECT			1,360,000	1,200,000	88.2	160,000	11.8					

Amounts net of VAT

Contract 1 will be one service contract funded by the EC and tendered under EC procedures.

Contract 2 will be a supply contact funded and tendered by the Montenegrin authorities in accordance with local procedures

For more details see Annex 5.

5. Indicative Implementation Schedule (periods broken down per quarter)

Contracts	Start of Tendering	Signature of contract	Project Completion
Contract 1	Q1 2009	Q3 2009	Q4 2012
Contract 2	Q2 2009	Q3 2009	Q 4 2012

6. Cross cutting issues

6.1 Equal Opportunity and Minorities

Previous analytical work done on business barriers shall be reviewed. This will include studies, analysis and assessments of gender and minority community based barriers, verifying the extent to which such studies have been taken into account and duly integrated in the Private Sector Development Strategy.

In addition, SWOT and other types of analyses, like stakeholders analysis, gender needs analysis, minority community needs assessment will be carried out to guide mainstreaming gender and ethnic community considerations in future business development support.

Specific policies will be defined for the CGF to ensure that women-run businesses, minorities and disadvantaged groups benefit from its operations through improved access to bank credit

The project shall seek to

- (i) ensure women managing SMEs are informed about the opportunities offered by the CGF and the advantages available to them;
- (ii) target those enterprises which are positively affecting the quality of life of women in Montenegro (e.g. business sectors which are employing a larger share of women, or which are providing assistance and services targeted primarily at women);

In order to facilitate access to credit to the specific target groups, i.e., businesses in rural, less developed regions and women-run businesses, more favourable conditions for credit guarantees could be granted (for example, coverage rate could be higher than the standard 50% – 60%).

6.2 Environment

The determination of Montenegro embodied in its Constitution to become an ‘ecological state’, requiring from all participants in the development and reform process to adjust to increasingly strict environmental standards, will be duly incorporated and observed in the programme.

In this regard, specific opportunities shall be identified to integrate environmental considerations in business development, with a view to move towards sustainable development

7. Annexes

- 1 - Log frame in Standard Format
- 2 - Amounts contracted and Disbursed per Quarter over the full duration of Programme
- 3 - Description of the institutional framework
- 4 - Reference to laws, regulations and strategic documents:
 - Reference list of relevant laws and regulations
 - Reference to AP /NPAA / EP / SAA
 - Reference to MIPD
 - Reference to National Development Plan
 - Reference to national / sectoral investment plans
- 5 - World Bank Doing business indicators 2008
- 6 - Details per EU funded contract

ANNEX 1: Logical framework matrix in standard format

LOGFRAME PLANNING MATRIX		Project number (CRIS):	Improving business environment– No. 2008/xxx-xxx
Improving Business Environment for small and rural enterprises		Contracting period: 2 years from the date of conclusion of the Financing Agreement	Disbursement period: 1 year after the final data of execution of contracts
		Total budget : €1 360,000	IPA budget:€1 200 000
Overall objective	Objectively verifiable indicators	Sources of Verification	Assumptions
To strengthen the development of the Private Sector in rural area of Montenegro.	Increase of SME's share in GNP until the end of the project duration ³	Official statistics Annual progress report EC	
Project purposes	Objectively verifiable indicators	Sources of Verification	Assumptions
Fostering development of entrepreneurship with special support to rural enterprises through improve business environment and supports.	Increase of number of SMEs and entrepreneurs by 15% until the end of 2011 comparing to 2008. Employment increase in SMEs by 10% until the end of 2011 comparing to 2008.	Official statistics EC-Annual Progress Report Tax administration bureau	GOM remains committed to implementation of the Private Sector Development Strategy 2007 – 2010. Data from official statistic regarding SMEs share in GNP are collected and elaborated
Results	Objectively verifiable indicators	Sources of Verification	Assumptions
1.Reducing of business barriers at national and municipal levels	For 5 areas reduced time, cost and procedures according to World Bank Doing report 1) Starting a Business: Procedures (from 15 to 6), Duration (from 24 to 15), 2) Dealing with Licenses: Procedures (from 19 to 10), Duration (from 185 to 100) 3) Registering Property: Procedures (from 8 to 5), Duration (from 86 to 60), Cost (from 2.4 to 2.0) 4) Paying Taxes: Payments (from 88 to 60), Time (from 372 to 250),	World Bank Doing business indicators	GoM should provide maximum compliance with all the measures and deadlines determined to eliminate the barriers to business during the process

³ under IPA 2007, the project supporting the statistical office contribute tot the preparation of a baseline indicator regarding SMEs share in GNP in order to measure the impact of this project

	Total tax rate (from 31.6 to 27) 5) Closing a Business: Time (from 2.0 to 1.5), Cost (from 8 to 6), Recovery rate (from 42.8 to 60)		
2. Improving access to finance	Over a 2 year period the CGF is expected : - to issue up to 300 Guarantees – to a total value of up to 20mil. € - to assist around 100 companies/business entities - to issue assisted loans to a total value up to 35 mil. €	<ul style="list-style-type: none"> • Annual reports of Montenegrin commercial banks • Annual reports of Central Bank of Montenegro • Analysis of Economic Policy annual report 	Initial capital of CGF is 5 mil. € Sufficient number of quality projects which apply for guarantees
3. Developing of business support services/business incubator in northern region	Support to 10 entrepreneurs or SMEs provided in the first 3 years of business incubator operation Support in business services at least 20 entrepreneurs or SMEs	Directorate of SME development – annual report	The government and selected municipality shall commit the funding necessary to support the establishment and operations of business incubator
Activities	Means	Costs	Assumptions
Component 1: business barriers 1.1. Drafting new laws regulations and/or amending existing laws and regulations especially for 5 areas - starting a business, dealing with licences, registering property paying taxes and closing a business 1.2. Preparation and implementation of Model for consolidated collection of taxes and contributions 1.3. Preparation and implementation of Model for on line collection of	Technical assistance via 1 service contract Supply of equipment	€1.2 million €0.16 million	GoM should provide continuity of the process itself, since the process in question cannot be realized, nor finished in a single attempt or by using one-off measures

<p>taxes and contributions</p> <p>1.4. Preparation and implementation of Model for and on line registration of companies</p> <p>1.5. establishing and putting into operation of an integrated service delivery portals in at least 6 municipalities</p>			
<p>Component 2: CGF</p> <p>2.1. Development of CGF policy</p> <p>2.2. Development of CGF operational and administrative procedures</p> <p>2.3. Mobilization of Resources for CGF Capitalization</p> <p>2.4. Hiring staff and training courses for CGF staff</p> <p>2.5. Development of new products / quarantee shemes</p> <p>2.6. Development of international linkages</p>			<p>The government institutions and other stakeholders shall commit the funding necessary to support the CGF capitalisation</p>
<p>Component 3: business support</p> <p>3.1 Development of incubator policy</p> <p>3.2 Mobilization of Resources for incubator (premises, staff , equipment, etc</p> <p>3.3 Training courses for management and staff</p> <p>3.4 Provide administrative and other supports for tenants</p> <p>3.5 Development of national / international linkages</p>			<p>The government and municipalities shall commit the funding necessary to support the establishment and operations of business incubators</p>
<p>Assistance in the estimation of GDP share of SME</p>			

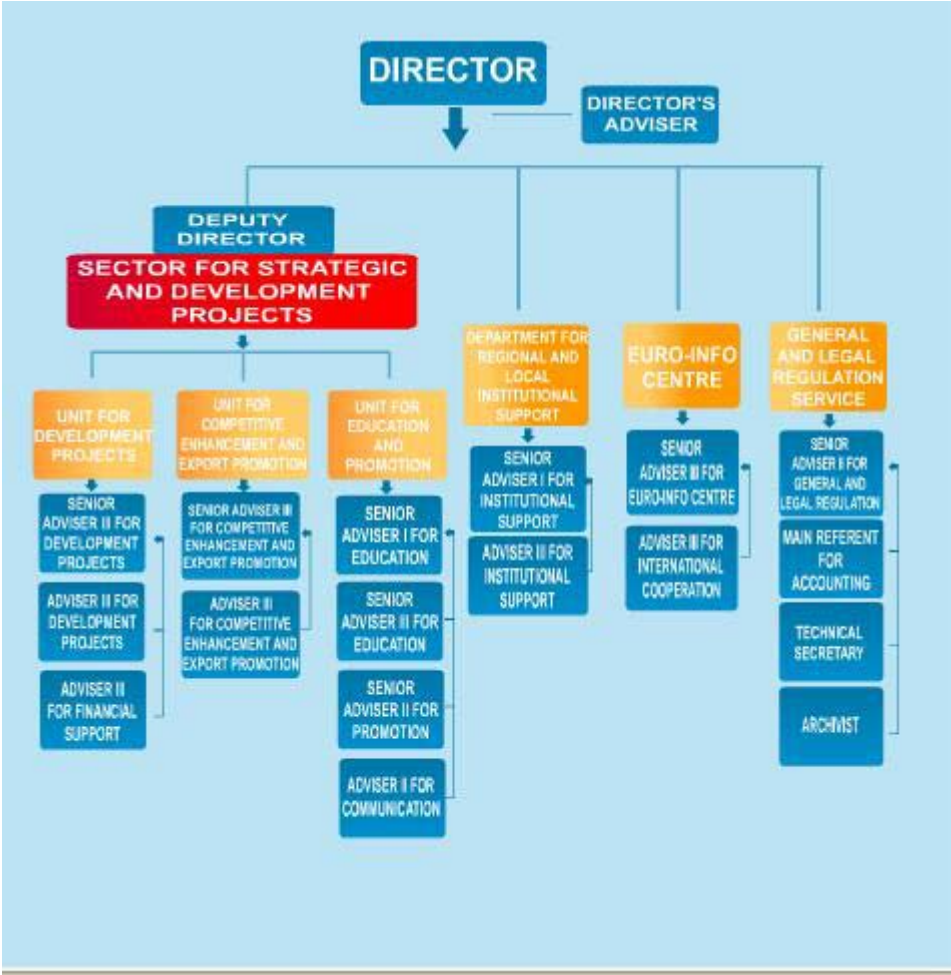
ANNEX 2: Indicative amounts (in €) Contracted and disbursed by quarter for the project:

Contracted	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Contract 1 (service)	1,200,000						
Cumulated	1,200,000						
Disbursed	Q3 2009	Q4 2009	Q1 2010	Q2 2010	Q3 2010	Q4 2010	Q1 2011
Contract 1 (service)	400,000		260,000		260,000		120,000
Contract 2 (supply)		100,000	60,000				
Cumulated	400,000	500,000	820,000		1,080,000		1,200,000

Annex 3 Description of the institutional framework

The Small and Medium Size Enterprise Directorate (SMEDA) is a government institution employing 21 staff organised as follows:

Organisational chart of the SME Directorate



SMEDA is responsible for defining the strategy for small and medium sized enterprises, preparing and realizing SME development projects and programmes, coordinating the programmes, measures and activities related to SME development, supervising the implementation of the Government financial support programme for SME development including donor financial support, providing an expert assistance and participating in definition of regulations related to SME development, realizing the aims and standards, in particular those prescribed by EU for SME development, examining the impact of legal and other facts on SME development, preparing educational programmes for entrepreneurs, coordinating the work of regional and local centers for SME development support, proposing and supporting implementation of special programmes for stimulation of SME development (franchising, leasing, venture capital, technological parks, incubators etc), as well other tasks defined in its legal acts.

Annex 4 Reference to laws, regulations and strategic documents

Reference list of relevant laws and regulations

<i>Group</i>	<i>Laws</i>
Finance	1. <i>Law on Tax Administration</i>
	2. <i>Law on Personal Income Tax</i>
	3. <i>Law on Corporate Income Tax</i>
	4. <i>Law on Excises</i>
	5. <i>Law on VAT</i>
	6. <i>Law on Amendment to Law on VAT</i>
	7. <i>Law on Immovable Property Tax</i>
	8. <i>Law on Insurance Premiums Tax</i>
	9. <i>Law on Ownership Tax</i>
	10. <i>Law on Games of Chance and Entertainment Games Taxes</i>
	11. <i>Law on Tax on Turnover of Used Motor Vehicles, Vessels and Aircrafts</i>
	12. <i>Law on Tax on Usage of Passenger Motor Vehicles, Vessels and Aircrafts</i>
	13. <i>Law on Administrative Fees</i>
	14. <i>Law on Public Utility Fees and Charges</i>
	15. <i>Law on Residential Fees</i>
	16. <i>Law on Local Public Utility Fees</i>
	17. <i>Law on Court Fees</i>
	18. <i>Law on Contributions for Social Insurance</i>
	19. <i>Law on Customs</i>
	20. <i>Law on Customs Service</i>
	21. <i>Law on Customs Tariff</i>
	22. <i>Law on Accounting and Audit</i>
Anti- corruption laws	23. <i>Law on Public Procurement</i>
	24. <i>Law on Prevention of Money Laundering and Funding of Terrorism</i>
	25. <i>Law on Electronic Signature</i>
	26. <i>Law on Electronic Commerce</i>
	27. <i>Law on Conflict of Interests</i>
Property relations, obligation relations	28. <i>Law on System of Insurance of Property and Persons</i>
	29. <i>Law on Expropriation</i>
	30. <i>Law on Sectional Title</i>
	31. <i>Law on Fiduciary Transfer of Ownership Right</i>
	32. <i>Law on Mortgage</i>
	33. <i>Law on Immovable Property Transactions</i>

34. *Law on Collateral as Means for Provision of Claims*
35. *Law on Surveying, Cadastre and Registering of Ownership Rights*

***Economic
activities***

36. *Law on Insolvency of Business Organizations*
37. *Law on Investment Funds*
38. *Law on Economy Privatization*
39. *Law on Business Organizations*
40. *Law on Roads*
41. *Law on Transport in Road Transportation*
42. *Law on Railway*
43. *Law on Postal Services*
44. *Law on Telecommunications*
45. *Law on Spatial Planning and Development*
46. *Law on Construction Land*
47. *Law on Development of Facilities*
48. *Law on Tobacco*
49. *Law on Olive Growing*
50. *Law on Maritime Fishing*
51. *Law on Organic Agriculture*
52. *Law on Planting Material*
53. *Law on Seeds Material of Agriculture Plants*
54. *Law on Seeds and Planting Material*
55. *Law on Health Protection of Plants*
56. *Law on Veterinary Activity*
57. *Law on Electronic Commerce*
58. *Law on Protection of Competition*
59. *Law on Foreign Trade*
60. *Law on Termination of Effect of Law on Social Control of Prices*
61. *Law on Intervention Procurement*
62. *Law on Tourism*
63. *Law on Enforcement of Regulations Defining Protection of Intellectual
Property Right*
64. *Law on Statistics and Statistical System of Montenegro*
65. *Law on Publishing Activity*
66. *Law on Media*
67. *Broadcasting Law*

68. *Law on Free Access to Information*
69. *Law on Sports*
70. *Law on Environment Protection*
71. *Law on Integrated Prevention and Control of Environment Pollution*
72. *Law on Free Zones*
- Payment
system and
finance
organiza
tions**
73. *Law on Central Bank*
74. *Law on Banks*
75. *Law on Financial Leasing*
76. *Law on Bankruptcy and Liquidation of Banks*
77. *Law on Protection of Deposit*
78. *Law on Amendment to Law on Regulating Liabilities and Claims against
Foreign Debt and Currency Savings of Citizens*
79. *Law on Bill of Exchange*
80. *Law on Takeover of Stock Companies*
81. *Law on Current and Capital Operations with Foreign Countries*
82. *Law on Securities*
83. *Law on Participation of Private Sector in Delivery of Public Services*
84. *Law on Contraction of Debt and Management of Public Sector Debt*
- Labour
and labour
relations**
85. *Law on Registers in Labour and Employment*
86. *Labour Law*
87. *Law on Strike*
88. *Law on Employment and Labour of Foreigners*
89. *Law on Employment*
90. *Law on Protection at Work*
91. *Law on Pension and Disability Insurance*

Reference to EP and SAA

The SAA makes the following reference to the SME sector:

Article 89

Economic and trade policy

The Community and Montenegro shall facilitate the process of economic reform by co-operating to improve understanding of the fundamentals of their respective economies and the formulation and implementation of economic policy in market economies.

To these ends, the Community and Montenegro shall co-operate to:

- exchange information on macroeconomic performance and prospects and on strategies for development;
- analyse jointly economic issues of mutual interest, including the framing of economic policy and the instruments for implementing it;
- promote wider co-operation with the aim to speed up the inflow of know-how and access to new technologies.

Montenegro shall strive to establish a functioning market economy and to gradually approximate its policies to the stability-oriented policies of the European Economic and Monetary Union. At the request of the authorities of Montenegro, the Community may provide assistance designed to support the efforts of Montenegro in this respect.

Co-operation will also aim at strengthening the rule of law in the business area through a stable and non-discriminatory trade-related legal framework.

Co-operation in this area will include exchange of information concerning the principles and functioning of the European Economic and Monetary Union.

Article 91

Banking, insurance and other financial services

Co-operation between Montenegro and the Community shall focus on priority areas related to the Community *acquis* in the fields of banking, insurance and financial services. The Parties will co-operate with the aim of establishing and developing a suitable framework for the encouragement of the banking, insurance and financial services sectors in Montenegro based on fair competition practices and ensuring the necessary level playing field.

Article 95

Small and medium-sized enterprises

Co-operation between the Parties shall be aimed at developing and strengthening private sector small and medium-sized enterprises (SMEs), the establishment of new undertakings in areas offering potential for growth and co-operation between SMEs in the Community and in Montenegro.

Co-operation will take due account of priority areas related to the Community *acquis* in the field of SMEs, as well as the ten guidelines enshrined in the European Charter for Small Enterprises.

The European Partnership with Montenegro (2007/49/EC) makes the following reference to the SME sector:

Sectoral Policies, Industry and SME s

3.1 Short term priorities

Continue implementing the European Charter for Small Enterprises.

Strengthen the investment promotion agency. Improve business advocacy and consultation.

Adopt a law on harmonisation and acceleration of licensing and systems for issuing permits; implement legislation in close cooperation with local government authorities; and, adopt and implement an action plan on the reduction of business barriers.

Accelerate the setting up and implementation of a national guarantee fund for SMEs.

Ratify and continue implementing the commitments undertaken in the framework of the signed Energy

3.2 Mid term priorities

Ensure the European Charter for Small Enterprises is fully implemented.

Start introducing regulatory impact assessments. Further improve access to finance and develop business support structures (clusters, incubators, business and technology parks).

Reference to MIPD 2007-2009

Reference to the SME sector is included under the chapter related to ***Socio-economic requirements:***

Main objectives and priorities: Strengthening the competitiveness of the Montenegrin economy and improve the business environment

Expected results are: Existing and functioning competitiveness in the private sector; improved framework for the establishment and operations of private enterprises, including reduction in business barriers and transaction costs; existing legal and institutional framework for development of public private partnerships; improved SME access to medium and long term finance; improved business support services and conditions for entrepreneurship development and enterprise creation, with an increase in the number of newly established, innovative firms in modern technology sectors; progress in terms of technological development and investment facilitation.

Programmes to be implemented Support to the establishment of a legal and regulatory framework in favour of private sector development; support to the Programme to Eliminate Business Barriers and to the Strategy for the Introduction of Quality Standards in Companies; training of managers and employers; support to initiatives launched under previous programmes (credit guarantee fund - CGF) and/or other initiatives aimed at alleviating the risk of lending (e.g. credit bureau or similar initiatives); promotion of the active involvement of relevant EU institutions, such as the European Association of Guarantee Funds (*Association Européenne du Cautionnement Mutuel – AECM*); development of business support services; support to projects related to the implementation of the European Charter for Small Enterprises; support to investment in innovation.

Annex5: World Bank Doing business indicators 2008.

Montenegro's ranking in Doing Business 2008.

Rank 81 of 178 Doing Business 2008

Ease of Doing Business

<i>Starting a Business</i>	98
<i>Dealing with Licenses</i>	113
<i>Employing Workers</i>	98
<i>Registering Property</i>	103
<i>Getting Credit</i>	84
<i>Protecting Investors</i>	19
<i>Paying Taxes</i>	129
<i>Trading Across Borders</i>	113
<i>Enforcing Contracts</i>	131
<i>Closing a Business</i>	41

Summary of Indicators - Montenegro

Starting a Business

<i>Procedures (number)</i>	15
<i>Duration (days)</i>	24
<i>Cost (% GNI per capita)</i>	6.2
<i>Paid in Min. Capital (% of GNI per capita)</i>	0.0

Dealing with Licenses

<i>Procedures (number)</i>	19
<i>Duration (days)</i>	185
<i>Cost (% of income per capita)</i>	599.6

Registering Property

<i>Procedures (number)</i>	8
<i>Duration (days)</i>	86
<i>Cost (% of property value)</i>	2.4

Paying Taxes

<i>Payments (number)</i>	88
<i>Time (hours)</i>	372
<i>Profit tax (%)</i>	9.3
<i>Labor tax and contributions (%)</i>	20.0
<i>Other taxes (%)</i>	2.3
<i>Total tax rate (% profit)</i>	31.6

Closing a Business

<i>Time (years)</i>	2.0
<i>Cost (% of estate)</i>	8
<i>Recovery rate (cents on the dollar)</i>	42.8

Ranking of Montenegro in Starting a Business - Compared to best practice and selected economies:

Montenegro is ranked 98 of 178 countries for Starting a Business.

Best Practice Economies

	<i>Procedures (number)</i>	<i>Duration (days)</i>	<i>Cost (% GNI per capita)</i>	<i>Paid in Min. Capital (%of GNI per capita)</i>
<i>Australia</i>	2	2	0.0	
<i>Denmark</i>		0.0		

Selected Economy

Montenegro	15	24	6.2	0.0
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Comparator Economies

<i>Bosnia and Herzegovina</i>	12	54	30.1	43.0
<i>Bulgaria</i>	9	32	8.4	56.3
<i>Croatia</i>	8	40	11.7	18.4
<i>Hungary</i>	6	16	17.7	65.1
<i>Macedonia, FYR</i>	9	15	6.6	0.0
<i>Serbia</i>	11	23	8.9	8.0

Ranking of Montenegro in Dealing with Licenses - Compared to best practice and selected economies:

Montenegro is ranked 113 overall for Dealing with Licenses

Best Practice Economies

	<i>Procedures (number)</i>	<i>Duration (days)</i>	<i>Cost (% GNI per capita)</i>
<i>Denmark</i>	6		
<i>Korea</i>		34	
<i>United Arab Emirates</i>			1.5

Selected Economy

<i>Montenegro</i>	19	185	599.6
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Comparator Economies

<i>Bosnia and Herzegovina</i>	16	467	790.3
<i>Bulgaria</i>	22	131	499.9
<i>Croatia</i>	22	255	722.4
<i>Hungary</i>	31	211	10.4
<i>Macedonia, FYR</i>	19	192	109.3
<i>Serbia</i>	20	204	2713.1

Ranking of Montenegro in Registering Property - Compared to best practice and selected economies:

Montenegro is ranked 103 overall for Registering Property.

Best Practice Economies

	<i>Procedures (number)</i>	<i>Duration (days)</i>	<i>Cost (% of property value)</i>
<i>New Zealand</i>		2	
<i>Norway</i>	1		
<i>Saudi Arabia</i>			0.0

Selected Economy

<i>Montenegro</i>	8	86	2.4
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Comparator Economies

<i>Bosnia and Herzegovina</i>	7	331	5.0
<i>Bulgaria</i>	9	19	2.3
<i>Croatia</i>	5	174	5.0
<i>Hungary</i>	4	63	11.0
<i>Macedonia, FYR</i>	6	98	3.5
<i>Serbia</i>	6	111	5.4

Ranking of Montenegro in Paying Taxes - Compared to best practice and selected economies:

Montenegro is ranked 129 overall for Paying Taxes.

Best Practice Economies

	<i>Payments (number)</i>	<i>Time (hours)</i>	<i>Total tax rate (% of profit)</i>
<i>Sweden</i>	2		
<i>United Arab Emirates*</i>		12	
<i>Vanuatu</i>			8.4

Selected Economy

<i>Montenegro</i>	88	372	31.6
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Comparator Economies

<i>Bosnia and Herzegovina</i>	51	368	44.1
<i>Bulgaria</i>	17	616	36.7
<i>Croatia</i>	28	196	32.5
<i>Hungary</i>	24	340	55.1
<i>Macedonia, FYR</i>	52	96	49.8
<i>Serbia</i>	66	279	35.8

Ranking of Montenegro in Closing Business - Compared to best practice and selected economies:

Montenegro is ranked 41 overall for Closing a Business.

Best Practice Economies

	<i>Recovery rate (cents on the dollar)</i>	<i>Time (years)</i>	<i>Cost (% of estate)</i>
<i>Colombia</i>			<i>1</i>
<i>Ireland</i>		<i>0.4</i>	
<i>Japan</i>	<i>92.6</i>		

Selected Economy

Montenegro	<i>42.8</i>	<i>2.0</i>	<i>8</i>
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Comparator Economies

<i>Bosnia and Herzegovina</i>	<i>35.0</i>	<i>3.3</i>	<i>9</i>
<i>Bulgaria</i>	<i>32.4</i>	<i>3.3</i>	<i>9</i>
<i>Croatia</i>	<i>30.2</i>	<i>3.1</i>	<i>15</i>
<i>Hungary</i>	<i>38.4</i>	<i>2.0</i>	<i>15</i>
<i>Macedonia, FYR</i>	<i>5.8</i>	<i>3.7</i>	<i>28</i>
<i>Serbia</i>	<i>23.1</i>	<i>2.7</i>	<i>23</i>

ANNEX 6 - Details per EU funded contract

1. The €1.2 million technical assistance should be provided through one service contract. A Steering Committee should be established to supervise the programme, coordinate the multiple beneficiaries and stakeholders involved, and provide guidance in the implementation of the technical assistance.

Experts to be engaged under the programme shall be professionals with a thorough knowledge and understanding of relevant EU legislation and best practices related to: business barriers, credit guarantee operations and business incubators. As know how transfer is at the centre of this contract, international experts need to be accomplished practitioners, proficient writers and capable of delivering inputs to stakeholder workshops with a pronounced ability to speak in public, convey messages by using modern communication technology including for example designing and delivering (MS or similar) power point presentations, appraise beneficiary staff, provide corresponding training on the job and design training programmes to close skill gaps observed

Team Leader

The Team Leader will have overall responsibility for the management of the Project activities including co-ordination of the work of the second key expert, and short/mid-term consultants both inside and outside Montenegro. The Team Leader will also take responsibility for proper planning of the project, preparation for and conduct of the Project Steering Committee, formal and informal reporting, efficient use of the Project budget, administrative and logistic support to the Project activities and good communication with the Project Manager and the Contracting Authority.

Qualifications and skills

- Advanced degree in law, economics, finance, or other relevant field;
- Excellent communication and interpersonal skills;
- Excellent spoken and written English; reasonable fluency in the State language would represent an advantage
- Strong management skills, with experience of organisation, leadership and motivation of personnel;

General professional experience

- At least 10 years of professional experience;
- At least 5 years experience in managing complex EU-funded technical assistance projects, with knowledge of the EU procedures of project implementation;

Specific professional experience

- At least 5 years as advisor and/or as consultant providing policy advice to governments, preferably in private investment, banking, FDI and SMEs .
- At least 5 years working experience in a recently acceded EU member state, and/or a Central/Eastern European transition country.

Other experts

Profile of other short and medium term experts:

- Relevant university degree
- Minimum of 5 years professional experience in their respective field
- Relevant experience in at least one of the area and subjects covered under activities described in Section 3.4 of the fiche
- Good written and oral command of English

2. The refurbishment of premises and supply of IT and other equipment for the Credit guarantee fund and for the business incubator, will be implemented by means of local supply contract procedures in the total amount of €160 000 entirely funded by the national contribution.